



TAXPAYER ANNUAL LOCAL EARNED INCOME TAX RETURN

INSTRUCTIONS

A. General Instructions

1. **When To File:** All Pennsylvania residents with earned income, wages or net profits must file a local earned income tax return online or by mail by April 18, 2017. Even if you have employer withholding or are not expecting a refund, you must still file a timely return. If using a professional tax preparer, confirm that the tax preparer timely submits your final return. Late or incorrect filing/payment may result in additional collection costs. Checks returned for non-sufficient funds will be assessed a \$29 bank fee. If filing a federal or PA Application for Extension, see A.5 below.
2. **Where To File:** File with the local earned income tax collector serving your resident Tax Collection District. Only complete the part-year resident address fields if you moved during the year. If the pre-printed address on your return is not your current address, contact your employer to ensure your withholding information is up to date.
Part-Year Returns: If you moved during the year use the Part-Year Resident Schedule (on reverse side of tax return form) to calculate income and taxes owed for each taxing jurisdiction. File **one** local earned income tax return for **each** municipality. Report separately your earned income, tax paid and tax liability for each municipality on each return.
3. **Effective Dates:** January 1 through December 31, unless otherwise noted on the local earned income tax return. For example, if you are filing part-year resident tax returns.
4. **Resident PSD Code:** Taxpayers are required to provide a Resident PSD (political subdivision) Code for where you lived during the tax year. Keystone's *e-file* will automatically include the proper PSD Code when filing online. Go to www.KeystoneCollects.com to locate your PSD Code. Choose "Taxpayer Resources" and select the "Find my PSD Code" link on the left.
5. **Extension:** If you are requesting an extension of time to file, submit an Extension Request Form on or before April 18 and pay tax due, including accrued penalty and interest. You are required to file the final return on or before October 15 or you may be assessed a late-filing fee. **Do not submit the return with the extension request. Rather, file the final return by the extension deadline.**
File your extension request online at www.KeystoneCollects.com. Select the *e-file* button at the top of your screen.
Download an Extension Request/Payment Voucher form at www.KeystoneCollects.com. Choose Taxpayer Resources and select the Extension Request form from the menu.
6. **Amended Return:** When amending a PA Income Tax Return (PA-40), accordingly amend and re-file a local earned income tax return.
7. **Receipt/Copy:** An online confirmation or canceled check is sufficient proof of payment.
8. **Penalty and Interest:** If the tax is not paid when due, penalty and interest will accrue. Penalty and interest accrues on late-filed final returns and any late-filed quarterly estimates, if applicable. Late or incorrect filing/payment may result in additional collection costs. Use Line 17 and Line 18 to calculate penalty and interest.
9. **Round Cents** to the nearest whole dollar. Do not include amounts under 50 cents. Increase amounts from 50 to 99 cents to the next dollar amount.
10. **Use Black or Blue Ink Only:** Do not use pencil or red ink when completing form.

B. Regulations/Line-by-Line Instructions *Include supporting schedules and documentation with tax return.*

LINE 1: Gross compensation as reported on W-2: Use PA State Wages (If W-2 says PA in Box 15, use figure in Box 16).

If you are claiming out-of-state tax credits (see Line 12), enter figure in W-2 Box 5 (Medicare wages) and then subtract the amount in W-2 Box 12 (Item C and/or Item Y only; if zero, then just use Medicare wages).

Taxable Income Includes: Salaries, wages, commissions, bonuses, tips, stipends, fees, incentive payments, employee contributions to retirement accounts, compensation drawing accounts (*if amount received as a drawing account exceeds the salary or commission, the tax is payable on the amount received. If the employee subsequently repays to the employer any amount not in fact earned, reduce the income figure accordingly*), jury duty pay, military pay for services other than active duty, sick pay (*if employee received a regular salary during period of sickness or disability by virtue of agreement of employment*), and taxes assumed by the employer. Benefits accruing from employment (*such as: annual leave, vacation, holiday, separation, sabbatical leave and compensation received in the form of property*), shall be taxed at fair market value at the time of receipt. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer with questions.

Non-Taxable Income Includes: Social Security Benefits, Unemployment Compensation, pensions, public assistance, death benefits, gifts, interest, dividends, boarding and lodging for convenience of employer, lottery winnings, Supplementary Unemployment Benefits (*sub pay*), capital gains (*capital losses may not be used as a deduction against other taxable income*), disability benefits (*periodical payments received by an individual under a disability insurance plan*), active military service and summer encampment (*provide orders; include leave and earnings statement*), personal use of company cars, cafeteria plans, and clergy housing allowance. Some forms of payments from individual retirement programs (*such as: Keogh, Tax Shelter Annuity, IRA and 401K*) are not taxable. Refer to the PA Department of Revenue regulations regarding taxable compensation. This list is not exhaustive. Contact your professional tax preparer with questions.

LINE 2: Allowable Employee Business Expenses: *Documentation Required:* Enclose a copy of your PA Schedule UE. You may include a copy of your PA Income Tax Return (PA-40) to verify business expenses.

LINE 3: Other Taxable Earned Income: Include income from work or services performed, which has not been included on Line 1 or Line 5. Do not include interest, dividends or capital gains. Include supporting documentation, such as Form 1099. Copies are accepted. Do not copy or print more than one Form 1099 on the same page.

LINE 4: Total Taxable Earned Income: Subtract Line 2 from Line 1 and add Line 3.

LINES 5 and 6: Net Profit/Net Loss From Business: Use Line 5 for profit and Line 6 for loss.

A taxpayer may not offset a business loss against Gross Compensation as Reported on W-2 (Line 1). Passive or unearned income from an S-Corporation is not taxable and loss is not deductible. Pass-through earned income is taxable. A taxpayer may offset a loss from one business entity against a net profit from another business entity.

Documentation Required: Enclose Schedule(s) C, E, F, K-1 or RK-1, if applicable. Copies are accepted. Do not photocopy or print more than one Form or Schedule on the same page.

LINE 7: Total Taxable Net Profit: Subtract Line 6 from Line 5; if less than zero, enter "0".

LINE 8: Total Taxable Earned Income and Net Profit: Add Line 4 and Line 7.

LINE 9: Tax Liability: Multiply Line 8 by local earned income tax rate. To find the rate for your taxing jurisdiction, visit www.KeystoneCollects.com. Select the Taxpayer Resources tab and then click the "Find Municipality" link on the left. *e-file* automatically calculates the rate for you.

LINE 10: Earned Income Tax Withheld: Enter local tax withheld, as shown on your W-2 (Box 19). Do not enter the entire amount from Box 19 if your workplace location jurisdiction's "non-resident" tax **rate** is higher than the resident tax **rate** where you live. *By law your employer must withhold the higher of the two rates.* If the workplace location ("non-resident") tax rate is higher than the tax rate where you live, complete the worksheet on the back of the Final Return Form. This worksheet will determine the amount of the tax withholding you may enter on Line 10.

File online. Use *e-file* to calculate and enter the correct figure on Line 10

Philadelphia or out-of-state withholdings: If the tax was withheld to Philadelphia or to a state other than Pennsylvania, enter credit for Philadelphia Wage Tax paid, or from other state tax paid, on Line 12. See instructions for Line 12 below.

LINE 11: Quarterly and Extension Payments/Credit From Previous Tax Year: List any quarterly estimated payments made to date for the appropriate filing year. Do not include penalty or interest amounts that may have been paid with quarterly payments submitted after the statutory due date. Include any tax credit from previous year AND any additional payments made for the filing year, including amount paid when requesting an extension.

NOTE: Self-employed taxpayers who expect to report net profits, or taxpayers with earnings not subject to employer withholding (for example: U.S. government employees or those who work out of state), must report and timely pay quarterly estimate tax payments. Pay online with *e-file*, or use Quarterly Estimate Earned Income Tax Vouchers.

LINE 12: Out-of-State and Philadelphia Credits:

Reciprocity Rule: No credits are given for state income taxes paid to states that reciprocate with the Commonwealth of Pennsylvania. These states are: Maryland, New Jersey, Ohio, Virginia, West Virginia and Indiana.

Documentation Required: W-2(s) showing out-of-state withholding and Schedule G-L, or W-2(s) showing out-of-state withholding and out-of-state non-resident return.

- (1) Credit for income tax paid to non-reciprocal states must first be applied to Pennsylvania state income tax liability. Remaining credit may be used to offset local earned income tax liability, limited to the base local EIT rate multiplied by the out-of-state wages. To adjust Gross Compensation (Line 1), complete the Non-Reciprocal State Worksheet on the back of the return form. Wage earners must use Medicare wages (W-2 Box 5). Subtract any amount included in W-2 Box 12, Item C and/or Item Y. Credit for taxes paid out of state apply only against income tax amounts levied and otherwise payable under the authority of Chapter 3 of the Local Tax Enabling Act, and do not apply against additional amounts levied pursuant to another authority.
- (2) **Credit for income taxes paid to another state or political subdivision, including Philadelphia, may not exceed total local earned income tax liability (Line 9).**
- (3) Credits for income taxes paid to political subdivisions located outside of Pennsylvania or for wage taxes paid to Philadelphia may be taken directly against local earned income tax liability.
- (4) In calculating your income taxes paid to another state or political subdivision, note that the same items of income must be subject to both your local earned income tax and the out-of-state tax.

Credit for tax paid out-of-state is applied only to the local PA resident taxing jurisdiction's base EIT rate.

Credit for Taxes Paid to Other States: If the PA resident's income is taxed in another state, then the PA resident may apply a credit in PA for that out-of-state tax paid up to the PA resident taxing jurisdiction's base EIT rate. Credit is first applied against PA state income tax liability. If any credit balance remains, that credit balance may be applied against the local earned income tax liability.

Income tax deductions and exemptions differ among the various states. As such, the taxable income figure may likewise vary from state to state. The same items of income must be subject to both local earned income tax and the out-of-state tax. In PA, a tax credit is allowed only against that earned income subject to tax in another state and in PA.

Example: If a taxpayer's wages/net profits subject to tax in another state is \$50,000 (use figure from PA Schedule G-L), and if these wages/net profits were taxed by the non-reciprocal state at 5%, the total out-of-state tax is \$2,500 (use figure from PA Schedule G-L, Line 4.c). Taxpayer must first apply out-of-state credit against PA state income tax liability. If the taxpayer's local resident tax is 1%, this taxpayer has a maximum of \$500 available to credit against local tax.

| | |
|--|-------------|
| Out-of-state wages/net profits | \$50,000.00 |
| (Use figure from PA Schedule G-L) | |
| Out-of-state tax paid | \$2,500.00 |
| (Use figure from PA Schedule G-L, Line 4.c) | |
| PA state income tax liability | \$1,535.00 |
| (\$50,000 x 3.07%) | |
| Credit available against PA state tax liability | \$1,535.00 |
| (Choose the lesser of the out-of-state tax paid and the PA state income tax liability) | |
| Balance from PA state tax credit | \$965.00 |
| (Subtract out-of-state tax paid from PA state income tax liability) | |
| Out-of-state wages/net profits | \$50,000.00 |
| (Use figure from PA Schedule G-L) | |
| Local rate multiplier | \$500.00 |
| (Out-of-state income times PA local tax rate of 1%; \$50,000 x 1%) | |
| Local Earned Income Tax Credit for Line 12 | \$500.00 |
| (Enter the lesser of the Balance from PA state tax credit and the Local rate multiplier on Line 12) | |

Credit for tax paid out-of-state is applied only to the local PA resident taxing jurisdiction's base EIT rate.

Credit for Taxes Paid to an out-of-state municipality: Wage tax paid to an out-of-state municipality may be applied directly as a credit toward PA local earned income tax liability. To calculate Gross Compensation (Line 1), use figure in W-2 Box 5 (Medicare Wages), then subtract figure(s) in W-2 Box 12 (Item C and/or Item Y). To calculate local credit, use local wages earned out of state from W-2 (Box 18) and multiply by PA resident base local tax rate. Credit cannot exceed local tax withheld out of state from your W-2 (Box 19). **Credit cannot exceed PA resident base local earned income tax liability** (see Line 9 of the PA taxpayer *Annual Local Earned Income Tax Return*). Credit is available only on income subject to tax in both states. Credit will be denied if taxpayer fails to provide supporting documentation, including a W-2 and/or other verification of tax paid. Credit is not transferable to the tax liability of a spouse. **Taxpayer may not claim a refund in excess of the base local tax liability.** Enter credit on Line 12. Example: Taxpayer earned \$50,000 in local wages in Wilmington, and paid local Wilmington tax of \$625. Multiply the Wilmington local wages times PA local resident base tax rate. (Example: \$50,000 x 1% = \$500.) This taxpayer may only claim \$500 in out-of-state local wage tax credits on Line 12.

Credit for Taxes Paid to Philadelphia: Wage tax paid to Philadelphia may be applied as a credit toward local earned income tax liability. This credit will be denied if taxpayer fails to provide supporting documentation, including a W-2 and/or other verification of taxes paid. **Credit cannot exceed PA resident local earned income tax liability** (see Line 9 of the PA taxpayer *Annual Local Earned Income Tax Return*). Credit is not transferable to the tax liability of a spouse. **Taxpayer may not claim a refund in excess of the local tax liability.** Example: Taxpayer's employer withheld \$400 in Philadelphia wage taxes, and the taxpayer's local resident tax liability on Line 9 is \$100. This taxpayer may only claim \$100 in Philadelphia wage tax credits on Line 12.

LINE 13: Total Payments and Credits: Enter the sum of Line 10, Line 11 and Line 12.

LINE 14: Refund: If Total Tax Liability (Line 9) is less than Total Payments and Credits (Line 13), choose one of the following options.

- Refund entire amount of the overpayment (Line 14); **or**
- Apply entire amount of the overpayment to next year's tax (Line 15); **or**
- Apply entire amount of the overpayment to spouse's current-year tax (Line 15); **or**
- Apportion overpayment between next year's tax and spouse's current-year tax (Line 15).

Leave Line 14 blank if claiming a credit on Line 15. Tax officer will issue Form 1099 to the federal government for any credit or refund exceeding \$10.

LINE 15: Credit: If Total Tax Liability (Line 9) is less than Total Payments and Credits (Line 13), taxpayer may split the amount of the overpayment between next year's tax liability and to spouse's current-year tax. Tax officer will issue Form 1099 to the federal government for any credit or refund exceeding \$10.

LINE 16: Earned Income Tax Balance Due: If Total Tax Liability (Line 9) is greater than Total Payments and Credits (Line 13), enter amount of tax due. If less than \$1 enter "0".

LINES 17 and 18: Penalty and Interest: Penalty and interest accrues on late-filed final returns, late-filed quarterly estimates, and late-filed extension payments. Late or incorrect filing/payment may result in additional collection costs.

LINE 19: Total Payment Due: Enter the sum of Line 16, Line 17 and Line 18. If less than \$1 enter "0". If more than \$1, make check payable to Keystone Collections Group and enclose check with return.

Make check payable to **Keystone Collections Group**. Include tax return and tax forms only.
All payments will be applied to 2016 earned income taxes.

Note: All tax returns are subject to audit and review. W-2 and/or supporting schedules must be enclosed with tax return. Do not copy or print more than one Form W-2 or Form 1099 on the same page.

When filing
by mail,
send to:

Refund or Credit Due
Keystone Collections Group
PO Box 509
Irwin, PA 15642-0509

Payment Enclosed
Keystone Collections Group
PO Box 529
Irwin, PA 15642-0529

No Payment/No Refund
Keystone Collections Group
PO Box 549
Irwin, PA 15642-0549

Go Paperless



KEYSTONE
collections group®

www.KeystoneCollects.com

Now faster and easier